

## Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 AID-05 CIAE-00 COME-00 EB-08  
FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03  
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01  
L-03 H-01 AGRE-00 /097 W  
-----011813 094048 /46

R 011551Z MAR 77

FM AMEMBASSY LONDON  
TO SECSTATE WASHDC 1106  
INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY COPENHAGEN  
AMEMBASSY DUBLIN  
AMEMBASSY THE HAGUE  
AMEMBASSY LUXEMBOURG  
AMEMBASSY PARIS  
AMEMBASSY ROME  
USMISSION EC BRUSSELS  
USMISSION NATO BRUSSELS  
USMISSION OECD PARIS  
USMISSION GENEVA  
AMEMBASSY STOCKHOLM  
USNMR SHAPE

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PASS LABOR' TREASURY AND FRB

E.O. 11652: N/A

TAGS: ELAB, EFIN, PINT, UK

SUBJECT: THE TUC AND THE BUDGET

BEGIN SUMMARY. IN ITS ANNUAL ECONOMIC REVIEW PUBLISHED  
FEBRUARY 28. THE TUC HAS PUT FORWARD A BROAD RANGE OF  
ECONOMIC AND SOCIAL PROPOSALS OARTLY AIMED AT INFLUENCING  
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THE BUDGET WHICH CHANCELLOR OF THE EXCHEQUER DENIS  
HEALEY PLANS TO ANNOUNCE ON MARCH 29. THE TUC DEMANDS  
THAT MR. HEALEY REFLATE TO THE TUNE OF ABOUT 2 37  
BILLION POUNDS WITH A PACKAGE OF TAX CUTS. STIMULANTS TO  
INDUSTRIAL EXPANSION, JOB CREATION AND TRAINING SCHEMES,  
AND IMPROVED WELFARE PAYMENTS. THE REVIEW DOES NOT SPELL  
OUT PAY POLICY TERMS WHICH THE TUC PLANS TO NEGOTIATE

WITH THE GOVERNMENT AFTER THE BUDGET, BUT IT WARNS THAT ANOTHER YEAR OF PAY RESTRAINT MUST BE LINKED WITH "ADEQUATE RESPONSE" TO ITS ECONOMIC DEMANDS. END SUMMARY.

1. OF ITS PACKAGE OF REFLATIONARY PROPOSALS TOTALLING 2.37 BILLION POUNDS. THE TUC WOULD HAVE THE BULK IN THE FORM OF INCOME TAX CUTS IN THE NET AMOUNT OF 1.5 BILLION POUNDS, MOSTLY FOR BENEFIT OF THE LOWER PAID. LT SUGGESTS THREE OPTIONS FOR POSSIBLE CUTS, HOWEVER. ONE OF WHICH WOULD ACTUALLY BENEFIT ALL INCOME TAX PAYERS BY REDUCING THE TAX RATE FROM THE PRESENT 35 PERCENT ON THE FIRST BAND OF TAXABLE INCOME TO 30 PERCENT IT ALSO ARGUES AGAINST ANY INCREASE IN INDIRECT TAXES.

2. THE REST OF THE PACKAGE INVOLVES STIMULATION TO INDUSTRY (200 MILLION POUNDS TO THE NATIONAL ENTERPRISE BOARD AND PROJECTS UNDER THE INDUSTRY ACT AND 100 MILLION FOR EXPANSION OF CONSTRUCTION INDUSTRY); JOB CREATION AND TRAINING SCHEMES (305 MILLION POUNDS); IMPROVEMENT IN NATIONAL INSURANCE BENEFITS (150 MILLION POUNDS); IMPROVEMENT IN WELFARE PAYMENTS BY EXTENDING EARNINGS SUPPLEMENTS AND REDUCING WAITING TIME FOR LONG-TERM SUPPLEMENTARY BENEFITS (65 MILLION POUNDS); AND A FINAL ITEM OF 50 MILLION POUNDS FOR SCHOOL MEAL SUBSIDIES.

3. THE TUC SAYS THAT THESE MEASURES, TOGETHER WITH OTHER ACTIONS IT CALLS FOR IN THE REVIEW, WILL PRODUCE ABOUT 250,000 MORE JOBS OVER AN EIGHTEEN-MONTH PERIOD LIMITED OFFICIAL USE

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AND THEREBY HELP TO REDUCE WHAT IT CONSIDERS AN UN-BEARABLE UNEMPLOYMENT BURDEN (1.4 MILLION IN JANUARY 1977). IT ACKNOWLEDGES THAT THE COST OF THESE MEASURES WOULD OUTRUN THE PUBLIC SECTOR BORROWING REQUIREMENT (PSBR) LIMIT SET IN THE GOVERNMENT'S LETTER OF INTENT TO THE IMF, BUT IT ATTEMPTS TO CIRCUMVENT THIS DIFFICULTY, AT LEAST IN PART, BY SUGGESTING THAT THE PSBR WILL BE "SUBSTANTIALLY LESS THAN ORIGINALLY THOUGHT" -- ABOUT 1 BILLION POUNDS LESS. GIVEN THE MAGNITUDE OF THE PROPOSED REFLATION, THIS STILL LEAVES A PSBR OVERRUN OF OVER 1 BILLION POUNDS ABOVE THE 8.7 BILLION POUND FIGURE. THIS IS INDEED A HEFTY INCREASE. HERE, THE TUC ARGUES FROM ANOTHER DIRECTION: IN THE IMF LETTER OF INTENT, IT SAYS, THE GOVERNMENT MADE IT CLEAR THAT THE SOCIAL CONTRACT AND INDUSTRIAL STRATEGY "ARE JUST AS IMPORTANT, IF NOT MORE IMPORTANT THAN RIGID ADHERENCE TO MONETARY TARGETS." IN THEIR VIEW, THERE IS, THEREFORE, A HIGHER IMPERATIVE THAN THE IMF LETTER OF INTENT'S STRICTURE ON PSBR LIMITS.

4. THE TUC ALSO GIVES SHORT SHRIFT TO THE GOVERNMENT'S PROJECTION OF A 15 PERCENT INFLATION RATE BY END OF 1977. NOT SO, SAYS THE REVIEW; IF THE VALUE OF THE POUND IS MAINTAINED AROUND ITS PRESENT 1.70 LEVEL, INFLATION COULD DROP TO 10 PERCENT AT THE END OF 1977 AND 5 PERCENT IN MID-1978. AT THE SAME TIME, HOWEVER, THE TUC INSISTS THAT THERE BE NO INCREASE IN INDIRECT

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TAXATION BECAUSE OF THE UNFAVORABLE EFFECT THIS WOULD HAVE ON PRICES. IT URGES THE SCHOOL MEAL SUBSIDY IN-

CREASE IN ORDER TO CURB COSTS; AND, IN BROADER TERMS,  
IT ADVOCATES MORE POWER TO THE PRICE COMMISSION TO CURB  
PRICES.

5. WHEN THE TUC LEADERSHIP PRESENTED THE REVIEW TO  
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CHANCELLOR HEALEY ON FEBRUARY 25, IT REPORTEDLY  
(FINANCIAL TIMES, FEBRUARY 26) CAME AWAY FROM THAT  
MEETING "CAUTIOUSLY OPTIMISTIC THAT THE CONTROLLED  
ECONOMIC EXPANSION IT DEMANDS WOULD BE FORTHCOMING IN  
THE BUDGET." LEN MURRAY EMERGED WITH A "FEELING THAT  
HE (MR. HEALEY) WAS NOT UNSYMPATHETIC TO THE IDEA OF  
SOME STIMULUS TO THE ECONOMY THIS YEAR." THE CHANCELLOR,  
FOR HIS PART, WAS CLEARLY MORE CAUTIOUS, EMPHASIZING  
THE DANGERS OF A TOO-SPEEDY RUSH FOR GROWTH AND ALSO  
POINTED TO THE LIMITS SET WHEN THE UK NEGOTIATED THE  
RECENT IMF LOAN. (THE TUC MAY HAVE SOME BASIS FOR ITS  
CAUTIOUS OPTIMISM SINCE THE CHANCELLOR LAST THURSDAY  
HAD GIVEN STRONG HINTS THAT INCOME TAX CUTS MAY BE  
PENDING.)

6. HOWEVER, AS IN PREVIOUS YEARS, THE ECONOMIC REVIEW  
THIS YEAR GENERALLY SETS OUT A "BARQAINING POSTURE"  
WHICH THE UNIONS CAN EMPLOY IN THEIR OLYMPIAN NEGOTIA-  
TIONS WITH THE GOVERNMENT, AND THEY WILL UNDOUBTEDLY  
OBTAIN LESS THAN THEY WANT. BUT IT IS CLEAR THAT THEY  
WILL BE EXPECTING A COMBINATION OF REFLATION ACTION  
ALONG THE BROAD LINES THEY HAVE SUGGESTED IN THE REVIEW,  
TOGETHER WITH A TOUGHER PRICES POLICY, AS PAYMENT FOR A  
THIRD YEAR OF WAGE RESTRAINT. THE SIZE AND SHAPE OF  
ROUND THREE ARE IN AN EARLY STAGE OF PREPARATION, BUT THE  
BUDGET PROPOSALS -- SINCE THEY WILL PRECEDE THE PAY  
DISCUSSIONS -- WILL HAVE A MAJOR IMPACT ON THE KIND OF  
PAY RESTRAINT POLICY WHICH EMERGES.

ARMSTRONG

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## Message Attributes

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**To:** STATE  
**Type:** TE  
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